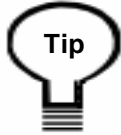


SC1040 INSTRUCTIONS 2003 (Rev. 1/7/04)

For tax year 2003, unless you have a valid extension, the due date is April 15, 2004 and the deadline to claim a refund is April 15, 2007.

COMPLETE YOUR FEDERAL RETURN BEFORE YOU BEGIN YOUR SOUTH CAROLINA TAX RETURN. YOUR COMPLETED FEDERAL RETURN WILL CONTAIN INFORMATION WHICH YOU MUST ENTER ON THE SOUTH CAROLINA RETURN.

If you were required to use federal schedules C, D, E and/or F with your federal return or filed a Schedule NR, SC1040TC and/or I-319 with your South Carolina return, attach a copy of your completed federal return and schedule(s) to your South Carolina return.



Complete your federal return first!

NAME, ADDRESS AND SOCIAL SECURITY NUMBER

Use the preaddressed label from the back cover of this booklet only if **ALL** information is correct. It is best to complete your entire return before placing the label on it. **If any information is incorrect, please discard the label.** If you did not receive a preaddressed label or if it was incorrect, print or type your name, address, Social Security number and the code of the county in which you live. For a list of county codes see page 28.

If you are married and filing a joint return, fill in your spouse's name and your spouse's Social Security number.

If you are married and filing separate returns, **do not include your spouse's name or Social Security number in this section. Fill in your spouse's Social Security number next to box # 3 in the filing status section.**

In compliance with the Federal Privacy Act of 1974, Public Law 93-579, the disclosure of the individual's social security number on this form is mandatory. 42 U.S.C. 405(c)(2)(C)(I) allows a State (or a political subdivision hereof) to utilize an individual's social security number in connection with the administration of any tax and SC regulation 117-201 provides that any person required to make a return, statement or document to the Department of Revenue must include identifying numbers on such return, statement or document if the Department requests such information. Social security numbers are primarily used for the purposes of identifying taxpayers and monitoring tax compliance and/or fraud.



NOTE: DO YOU REALLY NEED A BOOKLET NEXT YEAR?

The box just below the city, state, and zip code line should be checked if you use a tax preparer to complete your return or for some other reason you do not need a tax booklet next year. Most tax preparers have a supply of the needed forms and do not need tax booklets. The full SC booklet is also available on our website. (www.sctax.org) If you check this box, next year you will receive a pre-addressed label only. This is a savings of your tax dollars for printing and postage.

If you are filing a composite return for a partnership or S corporation, use the company name and the company's federal identification number. You need not use "Composite return for" or "Shareholders of" in the name section.



It is important to mark your filing status and exemptions to avoid delays in processing your return!

SCHEDULE NR

Nonresidents for the entire year and part year residents electing to file as a nonresident should check this box and attach Schedule NR to the completed SC1040. **Do not submit the Schedule NR separately.**

INFORMATION FROM FEDERAL RETURN

FILING STATUS

You **must** check the same filing status you checked on your federal return. Check only one box. **Special rules** may apply to **NC residents**. See first page of General Instructions.

EXEMPTIONS

You **must** enter the same number of exemptions claimed on your federal return. Attach federal Form 8332, Dependency Exemption for Child of Non-Custodial Parent, if you are required to file this form with your federal return.

If you are claiming a deduction for children under six, you must enter in the space provided the number of children under six. Also, be sure to complete the information required on line 56.

NOTE: If you are filing a composite return for a partnership or S Corporation, mark single filing status and one exemption.

ROUND-OFF ALL AMOUNTS TO THE NEAREST WHOLE DOLLAR.

Line 1 Enter your Federal Taxable Income from your federal Form 1040, line 40; 1040A, line 27; or 1040EZ, line 6. Also enter this figure on line 35 of this return. **If your Federal Taxable Income is zero or less, enter zero** here and enter your negative amount on line 52.

Line 2 Resident filers complete lines 36 - 60 and enter figure from line 60 here. See pages 12-17 for further instructions. Nonresident/Part Year filers complete Schedule NR. Enter amount from line 48 here. See Schedule NR instructions.

If line 60 of the SC1040 or line 48 of the Schedule NR is less than zero, place a zero on line 2.



Lines 1 and 2 should not be blank. Refer to instructions for these lines.



Do Not enter the federal 10% penalty on line 4.

SOUTH CAROLINA TAX

Line 3 TAX

If your "income subject to tax" on line 2 is less than \$100,000 use the tax tables on pages 29 through 32 to determine your South Carolina tax and enter the amount of tax on line 3.

If your "income subject to tax" on line 2 is \$100,000 or more, use tax rate schedule on page 32 to compute your tax and enter the amount of tax on line 3.

Line 4 TAX ON LUMP SUM DISTRIBUTION

South Carolina provisions for lump sum distributions are the same as the federal provisions except South Carolina does not impose a premature distribution penalty. If you used federal Form 4972 for a lump sum distribution, you must use the South Carolina SC4972 to compute the South Carolina tax.

CREDITS

Line 6 CHILD AND DEPENDENT CARE

The South Carolina Credit for Child and Dependent Care expense is 7% of the federal expense for a full year resident. A part year/nonresident is allowed 7% of their prorated federal expenses. See examples below. **Married filing separately cannot claim this credit.** The maximum credit allowed for one child is \$210. The maximum credit for two or more children is \$420.

Example A: Full Year Resident (In this example, the allowable credit is \$140.00.)

Federal Child Care Expense from Form 2441, line 6 or 1040A, Schedule 2, line 6 is \$2,000

$\$2000 \times .07 = \140.00

Example B: Part Year/Nonresident (In this example, the allowable credit is \$42.00.)

Federal Child Care Expense from Form 2441, line 6 or 1040A, Schedule 2, line 6 is \$2,000 and your proration percent from line 43 of SC Schedule NR is 30%, your computation should be:

$\$2000 \times .30 = \$600 \times .07 = \$42.00$

You may **not** claim this credit if you are a resident of a state which does not offer a credit for child and dependent care expenses to a South Carolina resident.

Line 7 TWO WAGE EARNER CREDIT (MARRIED COUPLE)

This credit can only be claimed by a **married couple filing jointly** when both spouses have earned income. This credit is **not** allowed on returns with a filing status of single, married filing separately or head of household.

Example - You earned a salary taxed to South Carolina of \$20,000. Your spouse earned \$17,000 taxed to South Carolina and had an IRA deduction taxed to South Carolina of \$1,000. Your SC qualified earned income is \$20,000 and your spouse's is \$16,000 (\$17,000 minus \$1,000). Because your spouse's qualified earned income is less than yours, the credit is based on your spouse's income. Therefore, the credit is \$112.00 (\$16,000 x .007).

Compute your earned income separately for yourself and your spouse. South Carolina earned income is generally income you receive for services you provide. It includes wages, salaries, tips, commissions and sub-pay. It also includes income earned from self-employment, business income or loss, partnership income or loss, farm income or loss and any other earned income taxed to South Carolina. Earned income does not include interest, dividends, Social Security benefits, IRA distribution, unemployment compensation, deferred compensation nor non-taxable income. **It also does not include any amount your spouse paid you.**

	(a) You	(b) Your Spouse
1. Wages, salaries, tips, etc., taxed to South Carolina from South Carolina Schedule NR, Column B; line 1, federal Form 1040, line 7; 1040A, line 7 or 1040EZ, line 1. (Do not include pensions or annuities.)	_____	_____
2. Net profit or (loss) from self-employment (from Schedules C and on Schedule K-1 of Form 1065) and any other earned income taxed to South Carolina.	_____	_____
3. Add lines 1 and 2. This is your total earned income taxed to SC.	_____	_____

South Carolina qualified earned income. This is the amount on which the credit is based. Compute it by subtracting certain adjustments from South Carolina earned income. The adjustments are:

- IRA deduction (from line 24, 1040, or line 17, 1040A)
- One half of self-employment tax (from line 28 of 1040)
- KEOGH retirement plan and self-employed SEP deduction
- Repayment of sub-pay

continued on next page



The two wage earner credit **cannot** be claimed on returns with a filing status of single, married filing separately or head of household.

- | | | |
|--|---------|-----------------|
| <p>4. Add amounts entered on federal Form 1040 lines 24, 28 through 30. If filing South Carolina Schedule NR, enter amounts from lines 18, 23 through 25 and any repayment of supplemental unemployment benefits (sub-pay) allocable to South Carolina income.</p> | (a) You | (b) Your Spouse |
| | _____ | _____ |
| <p>5. Subtract line 4 from line 3. This is your qualified earned income taxed to South Carolina. If the amount in column (a) or (b) is zero (-0-) or less, stop here. You may not take this credit.</p> | _____ | _____ |

Compute the credit.

6. Enter the smaller of 5(a) or 5(b). **Do not enter more than \$30,000.** _____
7. Multiply the amount on line 6 by .007. **Do not enter more than \$210.** Enter the amount here and on SC1040, line 7. _____

Line 8 OTHER NON-REFUNDABLE CREDITS

See SC1040TC instructions for an explanation of the other non-refundable credits. The appropriate schedules must be attached to your return.

TAX PAYMENTS/CREDITS

Line 11 SC INCOME TAX WITHHELD FROM WAGES

Enter the total SC tax withheld from your wages as shown on your W-2s under "State Income Tax." Enter only amounts withheld to South Carolina. Withholding paid to any other state cannot be claimed on your South Carolina return.

If you have South Carolina withholding from any federal Form 1099, include that amount on line 15.

NOTE: Amounts reported on a 1099G/INT **are not** South Carolina withholding.

Attach READABLE copies of your W-2s to the front of your return, right side up, at the place provided. **Copies of your W-2s are available only from your employer.** If you do not have a W-2 form, complete SC4862 and provide proof of any tax withheld.

Line 12 2003 ESTIMATED TAX PAYMENTS

Enter the total estimated tax payments you made before filing your 2003 South Carolina tax return plus any amount transferred from your 2002 tax return.

Line 13 PAYMENTS ON EXTENSION

If you requested an extension for more time to file your return, enter the amount you paid with the extension. Also write "EXTENSION" in bold letters in the upper right hand corner of the income tax return.

Line 14 NONRESIDENT SALE OF REAL ESTATE

A nonresident of South Carolina who sells real property located in this state is subject to withholding of South Carolina income taxes. Such sale must be reported to South Carolina on an individual income tax return. If state income taxes were withheld at the time of sale, claim the amount withheld on line 14 and **attach a copy of the I-290** to your return. See closing attorney for a copy of I-290.

Line 15 SC INCOME TAX WITHHELD - FORM 1099

Enter the total SC tax withheld from each Form(s) 1099 and attach a copy of each Form(s) 1099 to the front of your return. Form W-2 withholding should be entered on line 11.

NOTE: Amounts reported on a 1099 G/INT **are not** South Carolina withholding.

Line 16 TUITION TAX CREDIT

Refer to I-319 to see if you qualify to claim this credit. If you qualify, complete all information on I-319 and attach it to your return. If you have more than one qualifying student, complete a separate I-319 for each student. For more information, visit our website: www.sctax.org

This credit can only be claimed on SC1040. Attach a copy of your federal return.

Line 20 SOUTH CAROLINA USE TAX

If your use tax has not been remitted during the year, see South Carolina Use Tax Worksheet UT-3W for instructions. Enter the amount from Line 5 of UT-3W (worksheet) on line 20 of SC1040. Purchases subject to use tax are taxed at your county's state and local sales and use tax rate.

Purchases subject to Use Tax
 \$ _____ @ _____ % (your county's rate) = \$ _____



Attach all W-2's and/or 1099's! Credit for withholding can be allowed **only** if all supporting documents are provided.

Line 21 ESTIMATED TAX

If you want to apply any or all of your overpayment toward next year's tax, enter the amount on line 21.

Line 22 - 31 CONTRIBUTION CHECK-OFFS

See contribution page for specific information about the various funds to which you may contribute.

REFUND OR AMOUNT YOU OWE

Line 33 REFUND

If line 32 is larger than line 18, go to line 34. Otherwise, subtract line 32 from line 18 and enter the "Amount to be Refunded to You" on line 33. The SC Department of Revenue will not refund amounts less than \$1.00.

Line 34 NET DUE - AMOUNT YOU OWE

If you have an amount on line 32, add lines 32 and 19 and enter the "Amount You Owe" on line 34; otherwise, enter the amount from line 19. **Attach a check or money order to your return and write your Social Security number and "2003 SC1040" on it.** Make check or money order payable to the "SC Department of Revenue." Note the SC2210 penalty instructions below.

 **UNDERPAYMENT OF ESTIMATED TAX - SC2210**

You may owe a penalty for underpayment if you did not pay at least the smaller of: 90% of your tax liability for 2003; or 100% of your tax liability for 2002. However, if your adjusted gross income is \$150,000 or more, the 100% rule is modified to be 110% of the tax shown on your 2002 income tax return. Use SC2210 to determine any penalty that may be due. If you are due a refund, subtract the penalty amount from the difference of line 18 and line 32 and enter the result on line 33. If you owe tax, add the penalty amount to the sum of the amount due on line 19 and line 32 and enter the result on line 34.

ADDITIONS TO FEDERAL TAXABLE INCOME

Enter all numbers on line 36 through 41 as **positive** numbers even if they are negative numbers on the federal return. Lines 36 through 41 are adjustments which **must be added** to your federal taxable income to determine your South Carolina taxable income. Line 42 is the total of these additions.

Line 36 MARRIED CLAIMING STANDARD DEDUCTION

This adjustment is necessary due to a federal law change not adopted by South Carolina.

If you are married filing joint and claiming a standard deduction, enter \$1,550.

If you are married filing separate and claiming a standard deduction, enter \$775.

Line 37 STATE INCOME TAXES, IF ITEMIZING ON FEDERAL RETURN

If you deducted state and local income taxes while itemizing on your 2003 federal income tax return, you are required to add all or part of this amount to federal taxable income to arrive at your South Carolina taxable income. Use the worksheet below to figure the adjustment. (Keep this worksheet for your records.)

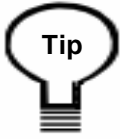
Worksheet A State Income Tax Adjustment

1. Total itemized deductions from 2003 federal Schedule A, line 28. 1. _____
2. Enter the following amount based on your filing status.

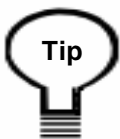
Filing Status	Enter	
Married filing jointly and qualifying widower . . .	\$7,950	
Head of household	7,000	
Single	4,750	
Married filing separately	3,975	2. _____
3. Subtract line 2 from line 1. (Enter zero if line 2 is greater than line 1.) 3. _____
4. Enter the amount of state income taxes from line 5 of federal Schedule A. If your federal itemized deductions were limited due to your adjusted gross income being more than \$139,500 (\$69,750 married filing separate), go to Worksheet B. 4. _____
5. The lesser of line 3 or line 4. Enter this amount on SC1040 line 37. 5. _____

Worksheet B State Income Tax Adjustment. Complete when federal adjusted gross income is more than \$139,500 (\$69,750 married filing separate) and federal itemized deductions are limited:

1. State income taxes from line 5 of federal Schedule A. 1. _____
2. Enter the amount from line 3 of the itemized deductions worksheet in the instruction booklet for federal Form 1040. 2. _____



See "Common Errors" on page 2 for reasons your refund may be delayed.



Your state income tax add back cannot be less than zero.

- | | |
|--|----------|
| 3. Divide line 1 by line 2, and enter the result here. | 3. _____ |
| 4. Enter the amount from line 9 of the itemized deductions worksheet in the instruction booklet for federal Form 1040. | 4. _____ |
| 5. Multiply line 3 by line 4, and enter the result here. | 5. _____ |
| 6. Subtract line 5 from line 1. Enter this amount on line 4 of Worksheet A. | 6. _____ |

Line 38 OUT-OF-STATE LOSSES

If you have reported losses from out-of-state rental property, a business located outside South Carolina, or losses from real property located out of state, enter the amount shown on your federal return on line 38. You must also include any related expenses, such as investment interest. Enter the total of these losses and related expenses on line 38.

Personal service income (W-2 or business wages) is taxable to South Carolina no matter where it is earned.

Line 39 EXPENSES RELATED TO RESERVE INCOME

Because inactive duty military reserve income is taxed for federal purposes but deductible on your South Carolina return, you must add back the amount of the federal deduction for expenses related to this income. Enter the amount of these expenses on line 39.

Line 40 INTEREST INCOME

Interest income on obligations of states and political subdivisions other than South Carolina **must be added**. In the case of a mutual fund, add back the percentage of exempt interest income attributable to out-of-state non federal obligations. Enter the amount of taxable interest income on line 40.

Line 41 OTHER ADDITIONS TO INCOME

Attach an explanation of your entry for this line. Some examples of items which you must enter on this line are:

- Taxpayers that claim 30% or 50% bonus depreciation under federal law must add back the difference between the bonus depreciation taken and the depreciation which would have been allowed without bonus depreciation.
- The increase in the Section 179 expense deduction limit from \$25,000 to \$100,000 does not apply to South Carolina. Add back the difference in the allowable deduction.
- Taxpayers that claim a child care program credit for donations to a nonprofit corporation (Sch. TC-9) are not allowed a deduction for those donations. The disallowed deductions are an addition to federal taxable income.
- Taxpayers that claim a credit for wages paid to employees terminated due to a base closure (Sch. TC-10) must reduce the deduction for wages paid by the amount of the credit. The amount of this credit is an addition to federal taxable income.
- Federal net operating loss when claiming a different amount for state purposes **is an addition. In no event is the same loss to be deducted more than once.** No carryback losses are allowed.
- Expenses deducted on the federal return related to any income exempt or not taxed by South Carolina **is an addition. Some examples are investment interest to out-of-state partnerships and interest paid to purchase United States obligations.**
- Foreign areas allowances, cost of living allowances and/or income from possessions of the United States are **additions** to federal taxable income.
- Annuity costs recovered in full for state purposes are **additions** to federal taxable income if using the federal ratio for cost recovery.
- Miscellaneous federal estate tax deductions on income in respect of decedent are **additions.**
- Effective for qualifying investments made after June 30, 1998, taxpayers must reduce the basis of the qualifying property to the extent the Economic Impact Zone Investment Tax Credit is claimed. An addition to federal taxable income must be made for the resulting reduction in depreciation.



For further information about additions to federal taxable income visit our website: www.sctax.org

Depending upon how a particular item was reported or deducted, the following items may be an addition or a subtraction:

- A change in the accounting method to conform in the same manner and the same amount to the federal. **This may be an addition or a subtraction.** At the end of the federal adjustment, any balance will continue until fully adjusted.
- The installment method of reporting is to be adjusted if the entire sale has been reported for state purposes or to continue on an installment basis if the entire sale has been reported for federal purposes. **This may be an addition or a subtraction.**

- Adjust the federal gain or loss to reflect any difference in the South Carolina basis and federal basis. **This may be an addition or a subtraction.**

SUBTRACTIONS FROM FEDERAL TAXABLE INCOME

Enter all numbers on lines 44 through 58 as positive numbers even if they are negative numbers on the federal return.

Lines 44 through 58 are adjustments which **should be subtracted** from your federal taxable income to determine your South Carolina taxable income. Line 59 is the total of these subtractions.

Line 44 STATE TAX REFUND

If your state tax refund was included on line 10 of your federal Form 1040, that amount should be entered on line 44.

Line 45 INTEREST FROM US OBLIGATIONS

If you included your interest income from U.S. obligations (such as U.S. savings bonds, treasury notes and bills, etc.) as income on your federal income tax return for 2003, enter this amount on line 45. Interest income from a mutual fund is excludable by the percentage the fund's assets consist of South Carolina and/or federal obligations.

Interest income from the following obligations **are taxable** for state purposes:

- Federal Home Loan Mortgage Corporation (Freddie Mac)
- Federal National Mortgage Association (Fannie Mae)
- Government National Mortgage Association (Ginnie Mae)

Line 46 NATIONAL GUARD and RESERVE ANNUAL TRAINING and DRILL PAY

The amount of income received for weekend drills and customary training periods when serving in the military reserves or National Guard **should be subtracted**. Generally, the customary training period is one weekend a month and two weeks per year of active duty. Enter the amount on line 46. **Income for active duty or full-time reserves is not tax exempt and should not be included on this line.**

Do not include Military Reserve and National Guard pay which is included in retirement income on this line. See line 58 instructions for other subtractions, page 16.

Line 47 PERMANENT DISABILITY RETIREMENT INCOME INCLUDED ON FEDERAL RETURN

If **disability retirement income** was taxed on your federal income tax return for 2003 and you qualify as being **permanently and totally disabled**, you may be able to exclude this income for South Carolina purposes. To qualify as totally and permanently disabled, you must be unable to be gainfully employed and otherwise eligible for the homestead exemption under Section 12-37-250. Qualifying for disability from one job while still being able to perform another job **would not** qualify you as totally and permanently disabled and **would not** qualify you for this deduction. Attach a copy of a physician's statement that you are permanently and totally disabled.

Line 48 SOCIAL SECURITY AND/OR RAILROAD RETIREMENT AMOUNT IF TAXED BY FEDERAL

If you are taxed on any Social Security benefits under Title 2 of the Social Security Act or Tier I railroad retirement income on your federal return for 2003, enter the amount that was taxed on your federal return on line 48.

Line 49 RETIREMENT DEDUCTION

An **individual** who is **under age 65** may claim a retirement deduction of no more than \$3,000 of **qualified retirement** income from his or her own plan.

An individual who is age **65 or older** may claim a retirement deduction of no more than \$10,000 of **qualified retirement** income from his or her own plan.

Husband and wife must each have their own qualified retirement income to claim their separate retirement deduction. Line 49a applies to the taxpayer whose name appears first on the return. Line 49b applies to the spouse whose name appears second on the return.

"QUALIFIED RETIREMENT INCOME" is income from plans defined in I.R.C. 401, 403, 408 and 457, and all public employee retirement plans of the federal, state and local governments, including individual retirement plans, Keogh plans, and military retirement.

Social Security income, railroad retirement income, and disability retirement income due to permanent and total disability do NOT qualify because these items are not taxed by South Carolina. See lines 47 and 48.

Any amount of qualified retirement income subject to a **federal premature withdrawal penalty** does **NOT** qualify for a retirement deduction.

A **surviving spouse** receiving qualified **retirement** income attributable to the deceased spouse may deduct up to



Third party sick pay reported on W-2 cannot be treated as permanent disability retirement income.



Provide birth dates for taxpayers claiming the retirement deduction.

\$3,000 or \$10,000 of the qualified retirement income, based on the age the deceased spouse would have been had he or she lived. To claim the deduction on line 49c, a surviving spouse must receive the decedent's qualified retirement income as a surviving spouse. The surviving spouse retirement deduction is in addition to the **individual** retirement deduction. Enter the birthdate(s) of the decedent(s).

Worksheet for Taxpayer line 49a:

- 1. Maximum deduction allowed for taxpayer based on age (\$3,000 or \$10,000) 1. _____
- 2. Taxpayer's individual qualified retirement income included in federal Form 1040, lines 15b and 16b, or 1040A, lines 11b and 12b 2. _____
- 3. Amount on line 1 or 2, whichever is smaller. Enter on line 49a. 3. _____

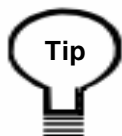
Worksheet for Spouse line 49b:

- 1. Maximum deduction allowed for spouse based on age (\$3,000 or \$10,000) 1. _____
- 2. Spouse's individual qualified retirement income included in federal Form 1040, lines 15b and 16b, or 1040A, lines 11b and 12b 2. _____
- 3. Amount on line 1 or 2, whichever is smaller. Enter on line 49b. 3. _____

Worksheet for Surviving Spouse line 49c:

NOTE: Calculate separately for each deceased spouse and include total on line 46c.

- 1. Maximum deduction allowed for surviving spouse based on age of deceased spouse had he/she lived (\$3,000 or \$10,000 per deceased spouse) 1. _____
- 2. Qualified retirement income received as surviving spouse included in federal Form 1040, lines 15b and 16b, or 1040A, lines 11b and 12b 2. _____
- 3. Amount on line 1 or 2, whichever is smaller. Enter on line 49c. 3. _____



Provide birth dates for taxpayers age 65 and older.

Line 50 AGE-65-AND-OLDER DEDUCTION

Beginning in the tax year in which a **resident** reaches age sixty-five, he or she is entitled to a deduction of \$15,000 against any SC income. Line 50a applies to the taxpayer whose name appears first on the return. Line 50b applies to the spouse whose name appears second on the return. The amount of the deduction on 50a is reduced by any individual retirement deduction claimed on line 49a. The amount of the deduction on 50b is reduced by any individual retirement deduction claimed on line 49b. The age-65-and-over deduction is not reduced by any surviving spouse retirement deduction claimed on line 49c.

Worksheet for Taxpayer line 50a:

- 1. Maximum deduction allowed for taxpayer 1. \$15,000.00
- 2. Amount claimed on line 49a for the taxpayer who is age 65 or older 2. _____
- 3. Subtract line 2 from line 1. Enter this amount on line 50a. Do not enter an amount less than zero. 3. _____

Worksheet for Spouse line 50b:

- 1. Maximum deduction allowed for spouse 1. \$15,000.00
- 2. Amount claimed on line 49b for the taxpayer who is age 65 or older 2. _____
- 3. Subtract line 2 from line 1. Enter this amount on line 50b. Do not enter an amount less than zero. 3. _____



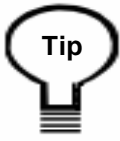
Do not enter wages earned in another state on SC1040 line 51. See SC1040TC.

Line 51 OUT-OF-STATE RENTAL/BUSINESS OR REAL ESTATE INCOME NOT TAXABLE TO SOUTH CAROLINA

If you have income from out-of-state rental property; a business located outside South Carolina; or gain from real property located out of state, as reported on your federal return, enter this amount on line 51. **However, personal service income (W-2 or business wages) is taxable to South Carolina no matter where it is earned.**

Line 52 NEGATIVE FEDERAL TAXABLE INCOME

Include the negative amount from the federal taxable income on line 52. **DO NOT** enter a number less than zero on line 1 or line 35.



South Carolina Capital Gains holding period is the same as the federal holding period (generally more than one year)

Line 53 NET CAPITAL GAIN DEDUCTION

Net capital gains which have been held for a period of more than one year and have been included in the SC taxable income are reduced by 44% for SC income tax purposes.

The term "**net capital gain**" means the **excess** of the **net long-term** capital gain for the taxable year **over** the **net short-term** capital loss for such year. Income received from installment sales as well as capital gain distribution qualifies for this deduction **provided the more than one year holding period has been met**. Multiply the net gain which meets the above guidelines by 44% (.44) and enter the results on line 53 of SC1040.

Example: Taxpayer's gain on stock (held since 1980) is \$10,000. Also reported is a short term (ST) loss on stock held for six months of \$5,000 and a long term (LT) loss on stock held since 1985 which amounts to \$3,000.

SC Net LT Capital Gain (more than one year)	\$7,000 (10,000 gain-3,000 loss)
- SC Net ST Capital Loss	- 5,000 (one year or less)
<u>SC Net Capital Gain</u>	<u>\$2,000</u>
<u>X Net LT Capital Gain Deduction</u>	<u>X44%</u>
Amount to be deducted on line 53	\$880.00

Line 54 SUBSISTENCE ALLOWANCE

Police and all commissioned law enforcement officers paid by South Carolina municipal, county, state governments or the federal government, **full-time** firefighters and **full-time** emergency medical service personnel are entitled to subsistence allowances of \$6.67 per regular workday. Your employer should provide you with the number of work days.

Line 55 VOLUNTEER FIREFIGHTERS/RESCUE SQUAD/HAZ-MAT MEMBERS DEDUCTION

Volunteer firefighters and rescue squad/HAZ-MAT members are allowed a **\$3000 deduction** from his or her SC taxable income. **Only** those volunteer firefighters and rescue squad/HAZ-MAT members receiving annually a minimum number of points as set by the state fire marshal are eligible for the deduction. Your employer should provide you with a form stating the number of points earned. If you qualify, enter \$3000 on line 55.

Line 56 DEPENDENTS UNDER SIX YEARS OF AGE

An additional deduction is allowed for each dependent claimed on the federal income tax return who had **not** reached the age of six years by December 31, 2003. Birthdate(s) and social security number(s) are required. Use the following worksheet to compute the deduction:

2003 Federal Personal Exemption Amount.....	3,050
Number of dependents claimed on your 2003 federal return who had not reached age six during 2003	<u> </u>
Allowable deduction, enter this amount on line 56	<u> </u>

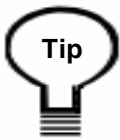
Line 57 CONTRIBUTIONS TO THE SC TUITION PREPAYMENT PROGRAM OR SC COLLEGE INVESTMENT PROGRAM

You may deduct 100% of any contributions made to the SC Tuition Prepayment Program in 2003. You may deduct 100% of any contribution made to the SC College Investment (Future Scholar) Program made in 2003 and through April 15, 2004.

Line 58 OTHER SUBTRACTIONS FROM INCOME

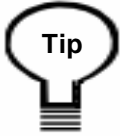
Since these subtractions apply only to a few people, they are not fully explained in this booklet. **Attach an explanation** of your entry on this line. Some examples of items which may be subtracted on line 58 are:

- A deduction is allowed to an individual for the purchase of economic impact zone stock. The deduction is equal to twenty percent of the total amount paid in cash by the taxpayer during the taxable year for the purchase of economic impact zone stock.
- If you itemized and claimed a federal tax credit for qualified mortgage credit certificates (MCC), you may subtract the amount of the tax credit as interest on line 58 of SC1040.
- South Carolina net operating loss. **In no event is the same loss to be deducted more than once.** (Attach your own worksheet.) No carryback losses are allowed.
- South Carolina and federal depreciation expenses are the same. Any asset with a different basis must be adjusted at the end of the federal depreciation as follows: personal property must be depreciated by the straight line method at the rate of 50 percent per year and real property must be depreciated by the straight line method at the rate of 20 percent per year.
- Capital expenses amortized under federal statutes will be the same for state purposes. At the end of the federal amortization, the balance of capital expense amortized will continue until fully amortized for state purposes. The amortized amount is a **subtraction** from your income.



South Carolina does not allow carrybacks of net operating losses.

- Legislators within a 50-mile radius of the State House are allowed to **subtract** travel expenses.
- SC deduction due to Federal 30% bonus depreciation in a prior year.
- Depreciable assets with a higher state basis because of: (1) taxable corporate liquidation prior to January 1, 1985; (2) exchange of property corporate liquidation prior to January 1, 1985; (3) exchange of property prior to January 1, 1985, as a result of not having a situs in South Carolina; or (4) IRC Section 179 expensing prior to January 1, 1985, may continue the state depreciation in the same manner. If you elect to continue this option, **subtract** the excludable portion from your income.
- Job credit wage reductions for federal purposes are subtractions from income for South Carolina purposes.
- Military Reserve and National Guard pay which is included in retirement income is not taxed for South Carolina purposes.



Be sure to attach the calculations verifying the amount of military retirement income being excluded.

Determine the percentage of your military retirement income which is excludable by dividing the length of time you served in the Reserves and/or National Guard (not full time) by the length of time of your total military service as follows:

$$\frac{\text{Inactive Reserve time} + \text{National Guard time}}{\text{Total Military time (Active and Inactive)}} = \text{_____ \% exclusion}$$

Determine the excludable amount of your military retirement income by multiplying it by the percentage of exclusion as follows:

$$\text{_____ \% exclusion} \times \begin{matrix} \text{total taxable military} \\ \text{retirement income shown} \\ \text{on federal return} \end{matrix} = \begin{matrix} \text{excludable military} \\ \text{retirement} \\ \text{income} \end{matrix}$$

Include the amount of excludable military retirement income as a subtraction on line 58.

- If you have adopted a "special needs child", you may **subtract** \$2,000 per year as long as the adopted child qualifies as a dependent on your federal return.

Attach a copy of the letter you received at the time of adoption which certified the person as a "special needs child."

A "special needs child" means a person under the age of 18 at the time of adoption, who is a dependent of a public or private non-profit adoption agency, is legally free for adoption and has been determined by the agency to have specific conditions.

Depending upon how a particular item was reported or deducted, the following items may be an addition or subtraction.

- A change in accounting method to conform in the same manner and same amount as federal. At the end of the federal adjustment, any balance will continue until fully adjusted. **This may be an addition or subtraction.**
- The **installment method of reporting** is to be adjusted if the entire sale has been reported for state purposes or to continue on an installment basis if the entire sale has been reported for federal purposes. **This may be an addition or subtraction.**
- Adjust the federal gain or loss to reflect any difference in the South Carolina basis and federal basis. **This may be an addition or subtraction.**

SIGN AND DATE YOUR RETURN

Your return must be signed. Both spouses must sign a joint return.

For deceased taxpayers, returns must be signed by surviving spouse, executor or administrator.

For surviving spouse, write "filing as surviving spouse" by your signature.

A personal representative filing the return must sign in his or her official capacity and attach SC1310. Any refund check will be issued to the decedent's surviving spouse or estate.

AUTHORIZATION

The signature section of the return contains a "check the box" authorization for release of confidential information. A check in the "yes" box authorizes the Director of the Department of Revenue or delegate to discuss the return, its attachments and any notices, adjustments or assessments with the preparer.

If a person is paid to prepare the income tax return, his/her signature and federal identification number are required in the spaces provided. Penalties are applicable for failure to comply.



Sign and date your return. Double check your SSN(s) and math calculations.